Revised market risk and CVA regulations – FAQs

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What is the revised market risk and CVA regulatory requirement and why is it being implemented?

The Basel Committee on Banking Supervision (BCBS) revised market risk and credit calculation adjustments (CVA) standards, commonly referred to as the Fundamental Review of the Trading Book (FRTB)]. This regulatory framework aims to enhance the robustness and risk sensitivity of capital requirements for trading activity. The BCBS standards included the minimum capital requirements for market risk (d457) and the targeted revisions to the credit valuation adjustment risk framework (d507). The Prudential Authority (PA) is adopting the BCBS standards and is localising it into South African regulations.

What are the components of the revised market risk regulation?

The standard defines market risk as the risk of losses in on- and off-balance sheet risk positions arising from movements in market prices. The risks, subject to market risk capital requirements, include interest rate risk, credit spread risk, equity risk, FX risk, commodities risk, and default risk for trading instruments.

The new market risk framework sets requirements for banks to define and manage risk across trading (trading book) and lending activity (banking book), with the regulatory boundary being used to determine capitalisation requirements for the associated risk. The standard defines a new market risk capitalisation requirement, which includes a simplified standardised approach and an internal model approach that banks can apply to use.

The internal model approach includes revisions to determine if a bank's internal risk management models reflect the risks of individual trading desks appropriately. The new internal model approach relies on the use of expected shortfall models and sets out separate capital requirements for risk factors that are deemed non-modellable. The new standardised approach is more risk-sensitive but is designed as a credible fallback to the internal model's approach. The simplified standardised approach is defined for banks that have small or non-complex trading activity.

What are the key components of the revised CVA regulation?

The standard defines CVA risk as risk of changes to CVA arising from changes in credit spreads of the contracting parties, compounded by changes to the value or variability in the value of the underlying of the derivative transaction. The new standard defines the basic (reduced or full) and standardised approach CVA capitalisation requirements for banks.

When will the revised market risk and CVA requirements become effective?

The PA, like most international jurisdictions, adopted the revised market risk and CVA BCBS standards. The PA is expected to localise the regulation with the new requirements expected to come into effect on 1 July 2025. The new prudential standard on market risk and CVA is made under section 1A (3) of the Banks Act, 4 of 1990 read with section 105 of the Financial Sector Regulation Act, 9 of 2017.

Will the revised market risk and CVA regulations impact clients?

Nedbank is not expecting that the South African implementation of the revised market risk and CVA regulations will have a material impact on its capitalisation or liquidity position. Nedbank is also not expecting to make changes to its product offering or pricing to clients in preparation or response to the new capitalisation requirements.

How does the revised market risk and CVA regulations benefit clients?

By strengthening the risk management requirements and capital standards associated with trading activity, the revised market risk and CVA regulations ensure a more stable and resilient South African financial system.

Who can I contact for more information?

Nedbank is committed to transparency and client support. If you have any questions or need further clarification, please contact your relationship manager or Nedbank's Market Risk Team at nedbankcibrisk-marketrisk@nedbank.co.za.